

**Illinois Department of Revenue
Regulations**

Title 86 Part 100 Section 100.2580 Medical Care Savings Accounts (IITA Sections 203(a)(2)(D-5), 203(a)(2)(S) and 203(a)(2)(T))

TITLE 86: REVENUE

**PART 100
INCOME TAX**

SUBPART F: BASE INCOME OF INDIVIDUALS

Section 100.2580 Medical Care Savings Accounts (IITA Sections 203(a)(2)(D-5), 203(a)(2)(S) and 203(a)(2)(T))

- a) For the purposes of this Section, "Act" means the Medical Care Savings Account Act [820 ILCS 152], repealed January 1, 2000, or the Medical Care Savings Account Act of 2000 [820 ILCS 153], which re-enacted the provisions of the repealed Act.
- b) *"Medical care savings account" or "account" means an account established in this State pursuant to a medical care savings account program to pay the eligible medical expenses of an employee and his or her dependents. (Section 5 of the Act) An employer, except as otherwise provided by statute, contract, or a collective bargaining agreement, may offer a medical care savings account program to the employer's employees.*
- c) A medical care savings account program must include the following:
 - 1) *The purchase by an employer of a qualified higher deductible health plan for the benefit of an employee and his or her dependents. (Section 5 of the Act)*
 - 2) *The contribution on behalf of an employee into a medical care savings account by his or her employer of all or part of the premium differential realized by the employer based on the purchase of a qualified higher deductible health plan for the benefit of the employee. An employer that did not previously provide a health coverage policy, certificate, or contract for his or her employees may contribute all or part of the deductible of the plan purchased pursuant to subsection (c)(1). For 1994, a contribution under this Section may not exceed \$6,000 for 2 taxpayers filing a joint return, if each taxpayer has a medical care savings account but neither is covered by the other's health coverage, or \$3,000 in all other cases. These maximum amounts shall be adjusted annually by the Department of Revenue to reflect increases in the consumer price index for the United States as defined and officially reported by the United States Department of Labor. (Section 5 of the Act)*
 - A) The Department will announce adjustments in the maximum amounts, as well as in the minimum higher deductible, by annual publication of a Notice of Public Information in the Illinois Register.

B) The Consumer Price Index (CPI) annual average for all urban consumers was 144.5 for calendar year 1993 and 148.2 for calendar year 1994. Therefore, the thresholds established under the Act were adjusted upward by 2% for 1995. Hence, for 1995, the minimum higher deductible is \$1026, the maximum higher deductible is \$3078, the maximum contribution for 2 taxpayers filing a joint return is \$6156 and the maximum contribution for all others is \$3078.

C) For the years 1994 through 2006, the thresholds are as follows:

Year	Minimum Higher Deductible	Maximum Higher Deductible	Maximum Contribution For Two	Maximum Contribution All Others
1994	\$1,000	\$3,000	\$6,000	\$3,000
1995	\$1,026	\$3,078	\$6,156	\$3,078
1996	\$1,055	\$3,164	\$6,238	\$3,164
1997	\$1,086	\$3,256	\$6,512	\$3,256
1998	\$1,111	\$3,331	\$6,662	\$3,331
1999	\$1,129	\$3,384	\$6,768	\$3,384
2000	\$1,154	\$3,458	\$6,917	\$3,458
2001	\$1,193	\$3,576	\$7,152	\$3,576
2002	\$1,226	\$3,676	\$7,352	\$3,676
2003	\$1,246	\$3,735	\$7,470	\$3,735
2004	\$1,275	\$3,821	\$7,642	\$3,821
2005	\$1,309	\$3,924	\$7,848	\$3,924
2006	\$1,354	\$4,057	\$8,114	\$4,057

3) *An account administrator to administer the medical care savings account from which payment of claims is made. Not more than 30 days after an account administrator begins to administer an account, the administrator shall notify in writing each employee on whose behalf the administrator administers an account of the date of the last business day of the administrator's business year. (Section 5 of the Act)*

d) Section 5 of the Act contains a number of definitions:

1) *"Account administrator" means any of the following:*

A) *A national or state chartered bank, a federal or State chartered savings and loan association, a federal or State chartered savings bank, or a federal or State chartered credit union.*

B) *A trust company authorized to act as a fiduciary.*

C) *An insurance company authorized to do business in this State under the Illinois Insurance Code or a health maintenance organization authorized to do business in this State under the Health Maintenance Organization Act.*

D) *A dealer, salesperson, or investment adviser registered under the Illinois Securities Law of 1953.*

- E) *An administrator as defined in Section 511.101 of the Illinois Insurance Code who is licensed under Article XXXI¹/₄ of that Code.*
 - F) *A certified public accountant registered under the Illinois Public Accounting Act.*
 - G) *An attorney licensed to practice in this State.*
 - H) *An employer, if the employer has a self-insured health plan under the federal Employee Retirement Income Security Act of 1974 (ERISA).*
 - I) *An employer that participates in the medical care savings account program.*
- 2) *"Deductible" means the total deductible for an employee and all the dependents of that employee for a calendar year.*
 - 3) *"Dependent" means the spouse of the employee or a child of the employee if the child is any of the following:*
 - A) *under 19 years of age, or under 23 years of age and enrolled as a full-time student at an accredited college or university,*
 - B) *legally entitled to the provision of proper or necessary subsistence, education, medical care, or other care necessary for his or her health, guidance, or well-being and not otherwise emancipated, self-supporting, married, or a member of the armed forces of the United States, or*
 - C) *mentally or physically incapacitated to the extent that he or she is not self-sufficient.*
 - 4) *"Domicile" means a place where an individual has his or her true, fixed, and permanent home and principal establishment, to which, whenever absent, he or she intends to return. Domicile continues until another permanent home or principal establishment is established.*
 - 5) *"Eligible medical expense" means an expense paid by the taxpayer for medical care described in Section 213(d) of the Internal Revenue Code.*
 - 6) *"Employee" means the individual for whose benefit or for the benefit of whose dependents a medical care savings account is established. Employee includes a self-employed individual.*
 - 7) *"Higher deductible" means a deductible of not less than \$1,000 and not more than \$3,000 for 1994. This minimum and maximum shall be adjusted annually by the Department of Revenue to reflect increases in the consumer price index for the United States as defined and officially reported by the United States Department of Labor.*
 - 8) *"Qualified higher deductible health plan" means a health coverage policy, certificate, or contract that provides for payments for covered benefits that*

exceed the higher deductible and that is purchased by an employer for the benefit of an employee for whom the employer makes deposits into a medical care savings account.

- e) *Before making any contribution to an account, an employer that offers a medical care savings account program shall inform all its employees in writing of the federal tax status of contributions made. (Section 10(b) of the Act) The contributions made pursuant to the Medical Care Savings Account Act will be taxable federally unless and to the extent the medical care savings account qualifies as a tax-favored medical savings account under section 220 of the Internal Revenue Code (26 USC 220).*

f) **Use of Account Moneys**

- 1) *The account administrator shall utilize the moneys held in a medical care savings account solely for the purpose of paying the medical expenses of the employee or his or her dependents or to purchase a health coverage policy, certificate, or contract if the employee does not otherwise have health insurance coverage. Moneys held in a medical care savings account may not be used to cover medical expenses of the employee or his or her dependents that are otherwise covered, including but not limited to medical expenses covered pursuant to an automobile insurance policy, worker's compensation insurance policy or self-insured plan, or another health coverage policy, certificate, or contract. (Section 15(a) of the Act)*
- 2) *The employee may submit documentation of medical expenses paid by the employee in the tax year to the account administrator, and the account administrator shall reimburse the employee from the employee's account for eligible medical expenses. (Section 15(b) of the Act)*
- 3) *If an employer makes contributions to a medical care savings account program on a periodic installment basis, the employer may advance to an employee, interest free, an amount necessary to cover medical expenses incurred that exceed the amount in the employee's medical care savings account when the expense is incurred if the employee agrees to repay the advance from future installments or when he or she ceases to be an employee of the employer. (Section 15(c) of the Act)*
- 4) *Upon the death of the employee, the account administrator shall distribute the principal and accumulated interest of the medical care savings account to the estate of the employee. (Section 20(d) of the Act)*

g) **Illinois Income Tax Consequences**

- 1) *Except as provided in subsection (f)(2), principal contributed to and interest earned on a medical care savings account and money reimbursed to an employee for eligible medical expenses are exempt from taxation under the Illinois Income Tax Act and shall be a modification decreasing federal adjusted gross income in arriving at Illinois taxable income of the employee for the taxable year.*
- 2) *Notwithstanding subsection (f)(3), and subject to subsection (f)(4), an employee may withdraw money from his or her medical care savings account for any*

purpose other than a purpose described in subsection (f)(1) only on the last business day of the account administrator's business year. Money withdrawn pursuant to this subsection (g)(2) shall be a modification increasing federal adjusted gross income in arriving at Illinois taxable income of the employee in the taxable year of the withdrawals. (Section 20(a) of the Act)

- 3) *If the employee withdraws money for any purpose other than a purpose described in subsection (f)(1) at any other time, all of the following apply:*
 - A) *The amount of the withdrawal shall be a modification increasing federal adjusted gross income in arriving at Illinois taxable income of the employee in the taxable year of the withdrawal.*
 - B) *The administrator shall withhold and on behalf of the employee shall pay a penalty to the Department equal to 10% of the amount of the withdrawal. (Section 20(a)(2) of the Act) The administrator must remit the penalty to the Department along with a copy of Form IL-601 "Medical Care Savings Account Penalty Payment."*
 - C) *Interest earned on the account during the taxable year in which a withdrawal under this subsection is made shall be a modification increasing federal adjusted gross income in arriving at Illinois taxable income of the employee.*
- 4) *The amount of a disbursement of any assets of a medical care savings account pursuant to a filing for protection under Title 11 of the United States Code, 11 USC 101 to 1330, by an employee or person for whose benefit the account was established is not considered a withdrawal for purposes of this Section. The amount of a disbursement is not subject to taxation under the Illinois Income Tax Act, and subsection (g)(3) does not apply. (Section 20(c) of the Act)*
- 5) *In the event that all of the following occur:*
 - A) *an employee is no longer employed by an employer that participates in a medical care savings account program,*
 - B) *the employee, not more than 60 days after his or her final day of employment, transfers the account to a new account administrator or requests in writing to the former employer's account administrator that the account remain with that administrator, and*
 - C) *that account administrator agrees to retain the account, then the money in the medical care savings account may be utilized for the benefit of the employee or his or her dependents subject to this Act, remains exempt from taxation, and shall be a modification decreasing federal adjusted gross income in arriving at Illinois taxable income of the employee or his or her dependents for the taxable year. Not more than 30 days after the expiration of the 60 days, if an account administrator has not accepted the former employee's account, the employer shall mail a check to the former employee, at the employee's last known address, for an amount equal to the amount in the account on that day, and that amount is subject to taxation pursuant to subsection (g)(3)(A), and shall be a modification*

increasing federal adjusted gross income in arriving at Illinois taxable income of the employee but is not subject to the penalty under subsection (g)(3)(B). If an employee becomes employed with a different employer that participates in a medical care savings account program, the employee may transfer his or her medical care savings account to that new employer's account administrator. (Section 20(e) of the Act)

h) The Act and this Section shall expire on 1/1/2010.

(Source: Amended at 30 Ill. Reg. 13890, effective August 1, 2006)